

# **REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON NAMAKWA DISTRICT MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Namakwa District Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the statement of comparison of budget and actual amounts and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Namakwa District Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **EMPHASIS OF MATTER PARAGRAPHS**

### **Restatement of corresponding figures**

7. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 30 June 2014 in the financial statements of Namakwa District Municipality at, and for the year ended, 30 June 2013

### **Material underspending of the conditional grant**

8. As disclosed in note 16 to the financial statements, the municipality has materially underspent the budget on the Civil defence subsidy, Fire equipment grant and Integrated Development Planning to the amounts of R217 000, R896 659 and R458 222. As a consequence, the municipality has not achieved its objectives of establishing a disaster management centre and assisting local municipalities to render fire services.

### **Additional matters**

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary schedules**

10. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **Unaudited disclosure notes**

11. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2014
  - Development objective 3: Economic Development, Planning & Project on pages XX to XX.
  - Development objective 4: Environmental Health on page XX to XX.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected development objectives are as follows:

### **Objective 3 - Economic Development, Planning & Project**

#### **Usefulness of reported performance information**

18. Section 41(c) of the Municipal Systems Act (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 47% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to the lack of understanding of the MSA reporting requirements.

19. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 22% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 22% of the targets

This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

#### **Reliability of reported performance information**

20. The FMPPI requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

## **Objective 4 - Environmental Health**

### **Usefulness of reported performance information**

21. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 36% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to the lack of understanding of the MSA reporting requirements.

### **Reliability of reported performance information**

22. The FMPPI requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

### **Additional matters**

23. I draw attention to the following matters:

### **Achievement of planned targets**

24. Refer to the annual performance report on page(s) x to x and x to x] for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development objectives reported in paragraph(s) x to xx of this report.

### **Unaudited supplementary schedules**

25. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

### **Compliance with laws and regulations**

26. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

### **Strategic planning and performance management**

27. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning; monitoring; measurement; improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.

### **Audit committees**

28. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies and effective governance as required by section 166(2)(a) of the MFMA
29. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
30. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
31. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
32. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
33. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).
34. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).
35. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

### **Internal audit**

36. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
  - it did not report to the audit committee on the implementation of the internal audit plan.
  - it did not advise the accounting officer and report to the audit committee on matters relating to internal controls, accounting procedures and practices.
37. The internal audit unit did not advise the accounting officer and or report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

### **Asset Management**

38. An adequate management, accounting and information system which accounts for assets was not in place as required by section 63(2)(a) of the MFMA.



## **Human Resource Management**

39. Job description were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of the MSA.

## **Internal control**

40. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

## **Leadership**

41. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. The leadership did not ensure that there were processes to ensure reviews are implemented before submission of information as material errors were detected in the financial statements and non-compliance with laws and regulations and internal control deficiencies were noted throughout the audit process.
42. The lack of decisive action to mitigate emerging risks and implement timely corrective measures was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year
43. The municipality did not review and monitor compliance with applicable laws and regulations.

## **Financial and performance management**

44. The accounting officer did not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information, review and monitor compliance with laws and regulations.
45. The underlying systems and controls were inadequate to provide reliable and accurate evidence to support the reporting on predetermined objectives. Senior management did not perform an adequate review on the actual performance against predetermined objectives reported.

## **Governance**

46. The accounting officer did not ensure that a risk unit is established. The municipality did not identify risks relating to the achievement of financial and performance reporting objectives. Consequently, controls were not developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives
47. Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting due to the fact that the internal audit unit was not adequately resourced and functioning.

48. The audit committee could not adequately promote accountability and service delivery by evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations due to the ineffective functioning of the internal audit unit.

*Auditor-General*

Kimberley

30 November 2014



AUDITOR-GENERAL  
SOUTH AFRICA

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